

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 AGR-20 H-03 L-03 DODE-00 PA-04 USIA-15 PRS-01

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R 221340Z MAY 74

FM AMEMBASSY STOCKHOLM

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INFO US MISSION EC BRUSSELS 779

AMEMBASSY COPENHAGEN

AMEMBASSY HELSINKI

AMEMBASSY OSLO

US MISSION OECD PARIS 1731

AMEMBASSY VIENNA

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VIENNA FOR GEORGE DIETZ, EXPORT-IMPORT BANK

E.O. 11652 N/A

TAGS: SW, EFIN

SUBJECT: SWEDEN EXPERIENCES SUDDEN CREDIT SQUEEZE

REF: A. STOCKHOLM 1389 B. STOCKHOLM 1965 C. STOCKHOLM 1446

SUMMARY. AVAILABILITY OF LOW-COST CREDIT IN SWEDEN HAS
DECLINED SEVERELY IN TWO MONTHS. SHIFT RESULTS FROM ACTIONS BY
RIKSBANK (CENTRAL BANK) DESIGNED BOTH TO COOL DOMESTIC ECONOMY
AND TO HALT DETERIORATION OF SWEDEN'S FOREIGN RESERVE POSITION.
END SUMMARY.

1. ACCORDING TO SENIOR VP OF SVENSKA HANDELSBANKEN, RIKSBANK
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GOVERNOR KRISTER WICKMAN HAS CONFIDENTIALLY INSTRUCTED

COMMERCIAL BANKS TO REDUCE SHARPLY RATE OF INCREASE OF KRONOR LENDING. EXISTENCE OF INSTRUCTION HAS BEEN HELD CLOSELY, KNOWN ONLY TO BANKS AND A FEW OF BIGGEST COMPANIES, IN ORDER TO AVOID SPECULATION IN SWEDISH KRONOR. INFORMATION CONFIRMED TO EMBOFF BY HEAD OF RIKSBANK'S CREDIT DEPARTMENT. PURPOSE OF INSTRUCTION, ACCORDING TO ECONOMIST WITH SKANDINAVISKA ENSKILDA BANKEN, IS TO COOL DOWN ECONOMY, THEREBY RESTRAINING INFLATION AND INDIRECTLY PREVENTING FURTHER DETERIORATION OF BALANCE-OF-PAYMENTS POSITION (REFS A AND B).

2. RAISING OF CASH RESERVE REQUIREMENT FOR COMMERCIAL BANKS FROM ONE TO FIVE PERCENT ON APRIL 5 (REF C) FORCED BANKS TO DEPOSIT SKR 2.8 BILLION IN RIKSBANK, A SUM EQUAL TO OVER 9 PERCENT OF NET CREDIT MARKET IN 1973 (NEW LENDING MINUS AMORTIZATIONS). RIKSBANK CREDIT CHIEF SAID, HOWEVER, THAT HE HAS OBSERVED NO SLOWDOWN IN RATE OF COMMERCIAL BANK LENDING AS RESULT OF RISE IN CASH RESERVE REQUIREMENT. COMMERCIAL BANK LOAN DISBURSEMENTS, ON CONTRARY, INCREASED SHARPLY IN APRIL IN FOLLOW-THROUGH OF PAST COMMITMENTS, AND INCREASE CONTINUES. ON OTHER HAND, HE KNEW THAT NEW LOAN PROMISES HAD DECLINED, BUT COULD NOT QUANTIFY RATE OF DECREASE. COMMERCIAL BANK LENDING ON APRIL 30 STOOD AT SKR 1.1 BILLION HIGHER THAN 12 MONTHS EARLIER, ACCORDING TO DATA PUBLISHED IN STOCKHOLM DAILY SVENSKA DAGBLADET MAY 15. SVENSKA HANDELSBANKEN CONTACTS THINK IT QUITE POSSIBLE THAT RIKSBANK MAY RAISE CENTRAL DISCOUNT RATE THIS SUMMER AND PERHAPS EVEN AGAIN IN THE FALL TO HASTEN CONTRACTION OF CREDIT MARKET.

3. OFFICIALS OF SVENSKA HANDELSBANKEN SAY THAT BANKS HAVE GREAT DIFFICULTY IN COMPLYING WITH RIKSBANK INSTRUCTION. THEY HAVE PROMISED MANY CUSTOMERS LOANS WHICH THEY NOW CANNOT FAIL TO GIVE. CUSTOMERS, FOR THEIR PART, HAVE STARTED PROJECTS WHICH CANNOT BE EASILY POSTPONED. SVENSKA HANDELSBANKEN OFFICIALS SAY THAT THE BANKS ARE THREATENING TO MAKE RIKSBANK INSTRUCTION PUBLIC IF RIKSBANK ITSELF DOES NOT.

4. ON FOREIGN SIDE, RIKSBANK IS CONCERNED WITH STUBBORN OUTFLOW OF EXCHANGE. CAUSE OF OUTFLOW IS MATTER OF LEADS AND LAGS. SWEDISH EXPORT RECEIVABLES ARE STAYING ABROAD ONE WAY OR ANOTHER, FOR EXAMPLE, BY EXTENSION OF CREDIT TERMS OR BY PARENT COMPANIES POSTPONING THEIR REQUESTS FOR PAYMENT FROM LIMITED OFFICIAL USE

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FOREIGN SUBSIDIARIES. SIMULTANEOUSLY, SWEDISH IMPORTERS ARE REPAYING IN ANTICIPATION OF 10-15 PERCENT REVALUATION OF DEUTSCHEMARK.

5. PUBLISHED RIKSBANK DATA SHOW THAT RISE IN RIKSBANK DISCOUNT RATE APRIL 3 FROM FIVE TO SIX PERCENT (REF C) SUCCEEDED SOMEWHAT IN SLOWING DOWN RATE OF OUTFLOW OF SWEDISH RESERVES FROM SKR 1.1 BILLION IN SINGLE WEEK ENDING MARCH 29 TO SKR 839

MILLION DURING MONTH OF APRIL. NEVERTHELESS, BY WEEK ENDING MAY 15, FOREIGN RESERVE HOLDINGS OF RIKSBANK HAD FALLEN TO SKR 6.3 BILLION (\$1.5 BILLION AT RATE OF EXCHANGE OF SKR 4.20 EQUALS \$1.00), A FIGURE DOWN SKR 2.7 BILLION FROM LEVEL OF DECEMBER 31. THIS DROP IS UNLIKELY TO HAVE BEEN FULLY COUNTERBALANCED BY A TRADE SURPLUS IN THE SAME PERIOD; FIRST QUARTER TRADE FIGURES, LATEST AVAILABLE TO DATE, SHOW A SURPLUS OF ONLY SKR 1.3 BILLION. (INVISIBLES HAVE BEEN IN DEFICIT IN RECENT YEARS.)

6. MAIN INSTRUMENT FOR PUSHING UP INTEREST RATES, RIKSBANK CREDIT HEAD SAID, IS INCREASE IN CASH RESERVES REQUIREMENTS. HE CONSIDERED THAT REQUIREMENT FOR HIGHER RESERVES HAD ACHIEVED DESIRED RISE IN BOTH LENDING AND DEPOSIT RATES. TO MEET HIGHER CASH QUOTA, BANKS WERE FORCED TO BORROW HEAVILY FROM RIKSBANK. BUT RIKSBANK HAS ALLOWED COMMERCIAL BANKS TO BORROW ONLY UP TO 75 PERCENT OF THEIR EQUITY AT PREVAILING 6-PERCENT DISCOUNT RATE; FOR AMOUNTS BEYOND THAT FIGURE -- AND RIKSBANK HAS PLACED NO LIMIT ON AVAILABILITY OF ITS LOAN FUNDS -- THEY MUST PAY PENALTY RATE OF 8 PERCENT, IN EFFECT SINCE CASH RESERVE REQUIREMENTS WAS RAISED. BANKS BORROWING FROM RIKSBANK AT 8 PERCENT ARE FORCED TO CHARGE THEIR PRIME CUSTOMERS ABOUT 9-1/4 PERCENT. IN ADDITION, RIKSBANK OFFICIAL CLAIMED THAT UNUSUALLY ATTRACTIVE TREASURY-BILL OFFERING AT 8 PERCENT HAS MADE BANKS WILLING TO PAY 8 PERCENT ON LARGE DEPOSITS OF COMPANIES, WITH RESULT THAT COMPANIES ARE NOW ABLE TO EARN IN SWEDEN RATES AS HIGH AS THEY HAVE BEEN EARNING ABROAD. NOT SHARING RIKSBANK'S OPTIMISTIC ASSESSMENT, A SECOND SVENSKA HANDELSBANK OFFICIAL HOLDS THAT RATE DIFFERENTIAL BETWEEN SWEDEN AND OTHER EUROPEAN COUNTRIES HAS NOT CLOSED AS RESULT OF RIKSBANK ACTIONS; EUROPEAN RATES HAVE ALSO BEEN GOING UP.

7. WHILE ACKNOWLEDGING RIKSBANK'S CONCERN TO COOL DOWN ECONOMY, HANS LUNDSTROM, DEPUTY CHIEF OF RIKSBANK, THOUGHT LIMITED OFFICIAL USE

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BANK MIGHT NOW BE MORE DISPOSED THAN BEFORE TO PERMIT COOPERATIVE FINANCING FACILITY OF US EXPORT-IMPORT BANK TO OPERATE IN SWEDEN. MAKING THE REMARK TO GEORGE DIETZ, EXIM'S EUROPEAN REPRESENTATIVE, LUNDSTROM SAID THAT SOME LIBERALIZATION OF RESTRICTIONS ON FOREIGN BORROWING WOULD HELP TO COMPENSATE FOR OUTFLOW OF CAPITAL ABROAD. HE ADDED, CAUTIOUSLY, THAT RIKSBANK SO FAR HAS TAKEN NO DECISIONS IN THIS AREA; LIBERALIZATION WOULD HAVE TO COME AS OUTGROWTH OF GRADUAL CHANGE IN RIKSBANK'S ATTITUDE.

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